

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SWF-02 AID-20 CEA-02 CIAE-00

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DRC-01 AGR-20 /134 W

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R 181720Z SEP 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 7483

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

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LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 7186

E.O. 11652: NA

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION SUBMITS DRAFT 1975 BUDGET FOR EUROPEAN
COMMUNITIES

REFS: A) EC BRUSSELS A-239

B) EC BRUSSELS 1465

C) EC BRUSSELS 3684

1. SUMMARY: THE COMMISSION HAS PROPOSED AN EC BUDGET FOR 1975 WHICH
CALLS FOR TOTAL EXPENDITURES OF ALMOST 7 BILLION U.A. (\$8.4 BILLION)

-AN INCREASE OF 37 PERCENT OVER 1974. IN ITS PROPOSAL, THE

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COMMISSION HAS INCLUDED REQUESTS FOR EXPENDITURES IN SOME AREAS

WHERE FINAL COUNCIL APPROVAL HAS NOT YET BEEN REACHED. THE PROPOSAL
FACES TOUGH OPPOSITION FROM THE COUNCIL; THE PERMANENT REPRESENTATIVES

HAVE BEGUN THEIR CONSIDERATION OF THE BUDGET AND HAVE ELIMINATED
CERTAIN PROPOSED EXPENDITURES. EXPENDITURES RELATED TO THE CAP
CONTINUE TO BE THE MAJOR PART OF THE BUDGET. CONSIDERATION OF
THE 1975 BUDGET INAUGURATES THE NEW SYSTEM IN WHICH THE
PARLIAMENT HAS A SOMEWHAT LARGER ROLE IN APPROVAL OF THE
BUDGET. THE BUDGET PROCESS IS SCHEDULED TO BE COMPLETED BEFORE
THE NEW FISCAL YEAR BEGINS JANUARY 1 BUT ADHERING TO THAT SCHEDULE
WILL BE DIFFICULT. END SUMMARY.

2. ON SEPTEMBER 5, THE EC COMMISSION ANNOUNCED ITS 1975 DRAFT
BUDGET. THE BUDGET HAD BEEN TRANSMITTED IN AUGUST TO THE
COUNCIL, WHICH IN TURN HAS FORWARDED IT TO THE PARLIAMENT. THE
TOTAL REQUESTS AMOUNTS TO NEARLY 7 BILLION UNITS OF ACCOUNT (\$8.4
BILLION), A 37 PERCENT INCREASE OVER THE 1974 EXPENDITURE LEVEL.
HOWEVER, IF NEW AND STILL NOT APPROVED ACTIVITIES ARE EXCLUDED,
THE INCREASE IN EXPENDITURES WOULD BE 16 PERCENT. THIS PROPOSED
BUDGET FACES SHARP SCRUTINY BY THE EC COUNCIL AND SEVERAL MEMBER
STATES HAVE ALREADY CALLED FOR A CUT IN PROPOSED EXPENDITURES.
THE FRG, FOR EXAMPLE, BELIEVES THAT THE EC SHOULD HOLD DOWN
NEXT YEAR'S EXPENDITURES IN ORDER TO SET THE EXAMPLE IN FIGHTING
INFLATION. THE DEPUTY PERMANENT REPRESENTATIVE OF THE UK TOLD US
ANYTHING NOT ALREADY AGREED TO BY THE EC COUNCIL WAS LIKELY TO BE
KNOCKED OUT OF THE BUDGET. SEVERAL OFFICIALS HAVE PRESICTED THAT
THE COUNCIL IN ITS SEPTEMBER 23 BUDGET MEETING WILL REDUCE SUBSTAN-
TIALY THE PROPOSED EXPENDITURES AND THE PERMANENT REPRESENTATIVES
HAVE ALREADY CUT SEVERAL PROPOSED ACTIVITIES WHICH THE COUNCIL
HAS NOT FORMALLY APPROVED. FOR EXAMPLE, WITHOUT COUNCIL APPROVAL
THE COMMISSION HAS INCLUDED EXPENDITURES FOR THE REGIONAL FUND
AND HAS DOUBLED THE COMMUNITY'S ASSISTANCE TO DEVELOPING
COUNTRIES. THE FUNDS PROPOSED FOR THESE ACTIVITIES COULD BE
INCORPORATED INTO A SUPPLEMENTARY REQUEST LATER IN THE YEAR
AFTER THE COUNCIL HAD TIME TO STUDY THE NEW PROGRAM PROPOSALS
OF THE COMMISSION.

4. THE EC INTENDED TO FINANCE THE BUDGET ENTIRELY FROM ITS
OWN RESOURCES IN 1975. BECAUSE A UNIFORM BASIS FOR ASSESSING
THE VALUE ADDED TAX(VAT) HAS NOT BEEN AGREED UPON (REF A),
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REVENUES FROM THE VAT ARE NOT BEING USED. AS A RESULT, MEMBER
STATES WILL CONTINUE TO MAKE BUDGETARY CONTRIBUTIONS BASED ON
THEIR RELATIVE GNP SHARES. THESE CONTRIBUTIONS WILL FINANCE 42
PERCENT OF THE BUDGET (ABOUT 2.9 BILLION U.A.). THE FOLLOWING
ARE THE 1975 SHARES FOR THE FOUR MAJOR COUNTRIES: GERMANY,
29.9 PERCENT; FRANCE, 23 PERCENT; UK, 19.6 PERCENT; AND ITALY,
14.8 PERCENT. THE OTHER 58 PERCENT OF THE BUDGET WILL BE
FINANCED BY REVENUES FROM THE EC'S OWN RESOURCES WHICH ARE

PRIMARILY RECEIPTS FROM CUSTOM DUTIES AND AGRICULTURAL LEVIES.
THESE RECEIPTS WILL INCREASE SUBSTANTIAALY FROM 2.9 BILLION IN
1974 TO 4 BILL U.A. IN 1974.

5. A NEW PROCEDURE COMES INTO EFFECT FOR CONSIDERATION OF
THE 1975 BUDGET WHICH GIVES THE EUROPEAN PARLIAMENT ADDED
POWER OVER NON-COMPULSORY EXPENDITURES. (SEE EC A-405,
A-372, A-243 AND A-240, ALL 1973.) IN THE PAST THE COUNCIL
ASKED FOR THE PARLIAMENT'S RECOMMENDATIONS REGARDING NON-
COMPULSORY EXPEDITURES BUT COULD, AND OFTERN DID, IGNORE
THOSE VIEWS. NOW, THE TWO INSTITUTIONS MUST REACH AGREEMENT AND
IF THE PARLIAMENT IS NOT SATISFIED, IT CAN DISAPPROVE THE
ENTIRE BUDGET. UNFORTUNATELY THE 1970 DECISSION WHICH CREATED
THIS NEW REGIME DID NOT DEFINE ALL ITS DETAILS AND THE CONCIL
AND PARLIAMENT HAVE NOT AGREED ON A NUMBER OF POINTS, ESPECIALLY
ON THE PROCEDURE TO BE FOLLOWED TO RECONCILE THEIR DIFFERENCES.
THERE MAY BE SOME CLARIFICATION OF THIS POINT FOLLOWING MEETINGS
BETWEEN PARLIAMENT PRESIDENT BERKHOUER AND COUNCIL CHAIRMAN
SAUVAGNARGUES IN PARIS ON SEPTEMBER 13 AND THE BUDGET
COUNCIL ON SEPTEMBER 23. THIS YEAR'S BUDGETARY PROCEDURE WILL
CONSEQUENTLY BE BREAKING NEW GROUND AND THERE IS LIELY TO BE
EVEN MORE BARGAINING AMONG THE EC'S INSTITTIONS THAN IN THE
PAST. IN PRINCIPLE, THE COUNCIL HAS 35 DAYS TO CONSIDER THE
COMMISSION'S PROPOSAL AND SUBMIT ITS FINAL DRAFT BUDGET TO
THE PARLIAMENT. THE PARLIAMENT THEN HAS 45 DAYS TO MAKE ITS
REVIEW AND RECOMMENDATIONS. SUBSEQUENTLY, THE COUNCIL AND
PARLIAMENT HAVE 15 DAYS IN SUCCESSION TO REACT TO EACH OTHER'S
PROPOSAL AND TO REACH FINAL AGREEMENT.

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LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 7186

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6. THE DECEMBER 1973 SUMMIT MEETING IN COPENHAGEN REAFFIRMED
THE EC'S INTENTION TO MOVE AHEAD WITH THE EUROPEAN REGIONAL
DEVELOPMENT FUND(REF B). THE COUNCIL, HOWEVER, HAS NOT AGREED
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ON THE AMOUNT AND DISTRIBUTION OF RESOURCES OF THE FUND. THE
COMMISSION, NEVERTHELESS, HAS PROPOSED 650 MILLION U.A. (\$784
MILLION) TO BE APPROPRIATED IN 1975. THE REGIONAL FUND WOULD
MAKE GRANTS AND SUBSIDIZE INTEREST PAYMENTS FOR MEMBER STATES'
INVESTMENTS IN POOR REGIONS. THESE INVESTMENTS WOULD GO INTO
INDUSTRY, SERVICES AND INFRASTRUCTURE IN ORDER TO PROMOTE
DEVELOPMENT. THE CRITERIA FOR THE USE OF THESE FUNDS ARE STILL
BEING DISCUSSED. THE COMMISSION'S PROPOSAL DOES NOT INDICATE
HOW THE FUNDS MIGHT BE DISTRIBUTED.

7. PROPOSED ECONOMIC ASSISTANCE FOR THE DEVELOPING COUNTRIES,
AMOUNTING TO 568 MILLION U.A., IS NEARLY DOUBLE THE 1974 LEVEL.
MOST OF THIS AMOUNT, 304 MILLION U.A., WILL BE IN THE FORM OF
FOOD AID. FOR THE FIRST TIME, THE BUDGET CONTAINS AN APPROPRIATION
OF 50 MILLION U.A., TO THE EUROPEAN DEVELOPMENT FUND
FOR THE ASSOCIATED STATES. PREVIOUSLY THE FUND HAD BEEN
ADMINISTERED OUTSIDE OF THE FRAMEWORK OF THE EC BUDGET. (REFTEL C).

8. THE BULK OF THE EXPENDITURES WOULD BE FOR THE COMMON
AGRICULTURAL POLICY. THE EUROPEAN AGRICULTURAL GUIDANCE AND

GUARANTEE FUND (EAGSF) CALLS FOR EXPENDITURES OF 4.3 BILLION U.A. COMPARED TO 3.7 BILLION U.A. IN 1974, AN INCREASE OF 16 PERCENT THESE FUNDS WILL BE USED MAINLY FOR INTERVENING IN THE INTERNAL MARKET, EXPORT SUBSIDIES, INVESTMENTS AND DISEASE CONTROL. THESE ESTIMATES ARE BASED ON THE 1974-75 MARKEY YEAR PRICES AND CONSEQUENTLY ARE SUBJECT TO CHANGE. FIVE MAIN SECTORS RECEIVE THE BULK OF THE ASSISTANCE: MILK PRODUCTS, CEREALS, BEEF AND VEAL, OIL AND FATS, AND TOBACCO.

9. THE EUROPEAN SOCIAL FUND, ANOTHER MAJOR ACTIVITY, FORESEES A 23 PERCENT INCREASE IN EXPENDITURES, REACHING 404 MILLION U.A. THE SOCIAL FUND ASSISTS IN VOCATIONAL TRAINING, RESETTLEMENT, UNEMPLOYMENT AND PILOT SCHEMES (SEE EC A-247). SEVERAL MODEST NEW PROGRAMS HAVE BEEN PROPOSED FOR NEXT YEAR, BUT INFLATED COSTS ACCOUNT FOR THE BULK OF THE INCREASED EXPENDITURES FOR THIS FUND.

10. COMMENT: CONSIDERATION OF THE BUDGET IS LIKELY TO BE EVEN MORE CONTENTIOUS THIS YEAR THAN IS USUALLY THE CASE. AS NOTED ABOVE, THE BUDGET-- AS IS THE CASE WITH NATIONAL BUDGETS-- AFFECTS ALL COUMMUNITY PROGRAMS AND BRINGS FORTH INTENSE BUREAU-CRATIC STRUGGLES; IN THE COMMUNITY, HOWEVER, THOSE STRUGGLES ALSO LIMITED OFFICIAL USE

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OFTEN RELECT SPECIAL INTERESTS OF THE MEMBER STATES, E.G. REGIONAL POLICY. THERE ARE OTHER REASONS FOR THE ANTICIPATED INCREASE IN DIFFICULTIES. FIRST, THERE IS THE NEW PROCEDURE WITH ITS UNRESOLVED PROBLEM OF HOW COUNCIL/PARLIAMENT DISAGREEMENTS ARE TO BE RESOLVED. SECOND, THERE HAVE BEEN PUBLIC STATEMENTS OF DISSATISFACTION WITH THE COMMISSION IN PARTICULAR AND THE COMMUNITY'S DECISION MAKING MACHINERY IN GENERAL. A LARGE BUDGET INCREAE WILL INCREASE SUCH DISSATISFACTION. THIRD, A MOJOR PART OF THE BRITISH QUOTE RENEGOTIATION END QUOTE HINGES ON THE GENERAL QUESTION OF THE QUOTE EQUITY END QUOTE OF MEMBER STATE CONTRIBUTIONS. THOSE PERCEPTIONS ARE BOUND TO AFFECT ANY CURRENT DISCUSSION OF THE BUDGET. END COMMENT. GREENWALD

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